



Wilson HTM
INVESTMENT GROUP

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23 April 2013

HILLGROVE RESOURCES LIMITED (HGO)

BUY

HOLD

SELL

ACTION & RECOMMENDATION

HGO has restructured and revised financing arrangements to better match forecast cash flow from its Kanmantoo copper mine in South Australia. Whilst the increase in diluted share count reduces our 12m price target (~2%), the net changes avoid a potential operating and financing stress point mid-2013. We understand the new crusher is operating to capacity and mining operations are now accessing high grade ore in the Kavanagh pit, which should lead to improved operating performance in late Q1-FY14. HGO expect copper production in FY14 to be 18-20kt (WHTMe: 18kt). We maintain a SPECULATIVE BUY recommendation.

12m Target Price (AUD)	\$0.24
Share Price @ 22-Apr-13 (AUD)	\$0.08
Fcst 12m Capital Return	202.9%
Fcst 12m Dividend Yield	0.0%
12m Total S'holder Return	202.9%

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Revised Financing Arrangements

What's Changed

Restructured & Revised Financing Arrangements

- Project Loan Facility (\$30m – fully drawn): Previous Completion Test (“drop-dead” date 30/6/2013) has been eliminated and Kanmantoo operating performance will now be measured against the LOM plan. Two operating tests to be met include copper production and unit costs being within the LOM plan by +/- 10%. In addition, the banks will require a “bank serviceability test” to be met.
- HGO expects cash payments from the asset level to the parent level to commence in Q3-FY14 (August) once the operating and finance tests are achieved for Q2-FY14.
- Mezzanine Loan Facility (\$10m – fully drawn): Maturity of facility extended by two years to July 2015. Subject to shareholder approval, the existing 27.7m options (strike \$0.27/sh) to Macquarie will be replaced with 50m options (strike \$0.135/sh).
- Additional Hedging: 10kt of copper hedging has been taken out to replace and add to HGO's existing profile. Net result in FY14 is that ~78% (previously 67%) of our forecast total production (WHTMe: 18kt) is hedged at an average price of US\$3.82/lb.

FY13 Financials

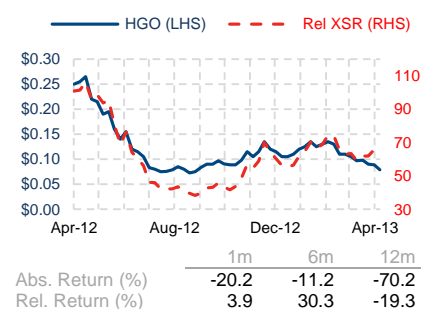
- Reduced corporate cost and increased tax benefit

Risks & Catalysts

- Risk: Operating performance at Kanmantoo, forecast copper price
- Catalyst: Reserve/Resource statement expected mid-2013. Evidence of improved operating performance expected in late April 2013, reported in Q1-FY14 production result (late May).

Year-end January (AUD)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (\$m)	4.2	12.9	109.5	139.6	159.5
EBITDA Margin (%)	-498	-91	14	34	40
NPAT Norm (\$m)	-13.3	-11.6	-10.8	10.5	19.8
Consensus NPAT (\$m)			-14.7	12.5	22.2
EPS Norm (cps)	-1.7	-1.5	-1.1	1.0	1.8
EPS Growth (%)	50	13	28	197	78
P/E Norm (x)	-4.7	-5.4	-7.5	7.7	4.3
EV / EBITDA (x)	-5.1	-9.0	6.7	2.2	1.7
CFM (x)	-1.0	-0.6	-4.9	2.2	1.6
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0	0	0	0	0
Mkt Cap: \$81m	Enterprise Value: \$106m	Shares: 1,023m	Sold Short: 0.2%	ASX 300 wgt: 0.0%	Median T'over/Day: \$0.1m

12m Share Price Performance



WHTM Return Re-investment Matrix

Return	High	Cash Generator	Champion
	Low	Challenged	Potential
		Low	High
		Re-Investment	

WHTM Risk Assessment

	Low	Med	High	Spec
Share Price Risk				
Business Risk				

Key Changes	21-Mar	After	Var %
Revenue	110	110	0.0%
FY13	110	110	0.0%
FY14	140	140	0.0%
FY15	159	159	0.0%
EBITDA:	10.3	15.8	54.5%
FY13	10.3	15.8	54.5%
FY14	49.3	48.2	-2.3%
FY15	66.4	63.5	-4.3%
EPS:	-1.5	-1.1	N/A
FY13	-1.5	-1.1	N/A
Norm	1.1	1.0	-9.6%
FY14	1.1	1.0	-9.6%
FY15	2.1	1.8	-14.1%
Price Target:	0.25	0.24	-2.8%
Rec:	BUY	BUY	

Wilson HTM Equities Research – Hillgrove Resources Limited

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PRICE TARGET

	Valuation	Price Target
Kanmantoo	265.13	0.24
Exploration	67.12	0.06
Hedge Book	0.57	0.00
Other Equity	1.62	0.00
Corporate	-25.55	-0.02
Net (Debt)/Cash	-25.34	-0.02
TOTAL	283.54	0.26

12 Month Price Target **0.24**

INTERIMS (\$m)

Half Yr (AUD)	Jul 11	Jan 12	Jul 12	Jan 13
	1H A	2H A	1H E	2H E
Sales	1.3	11.6	49.7	59.8
EBITDA	-2.5	-9.3	1.5	14.3
EBIT	-2.8	-14.1	-14.8	3.1
Net Profit	-0.3	-11.3	-11.7	0.9
Norm. EPS	0.0	-1.4	-1.3	0.1
EBIT/Sales	-213.6	-121.8	-29.7	5.2
Dividend (c)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

FINANCIAL STABILITY

Year-end January	FY12A	FY13E	FY14E
Net Debt	30.5	25.3	-5.4
Net Debt / Equity (%)	14.5	11.8	<0
Net Debt / EV (%)	28.7	23.9	<0
Current Ratio (x)	9.4	5.6	5.7
Interest Cover (x)	10.4	<0	6.2
Adj. Cash Int. Cover (x)	91.0	<0	15.5
Debt / CashFlow (x)	0.0	<0	1.2
Net Debt (cash) / share	0.0	0.0	<0
NTA / share (\$)	0.3	0.2	0.2
Book Value / share (\$)	0.3	0.2	0.2
Payout Ratio (%)	0	0	0
Adj. Payout Ratio (%)	0	0	0

EPS RECONCILIATION (\$m)

	FY12A		FY13E	
	Rep.	Norm.	Rep.	Norm.
Sales Revenue	13	13	110	110
EBIT	-17.0	-17.0	-15.5	-11.7
Net Profit	-11.6	-11.6	-13.7	-10.8
Notional Earn.	0.0	0.0	0.0	0.0
Prof./Conv. Div.	0.0	0.0	0.0	0.0
Profit for EPS	-11.6	-11.6	-13.7	-10.8
Diluted Shrs(m)	794	794	1,023	1,023
Diluted EPS (c)	-1.5	-1.5	-1.3	-1.1

RETURNS

	FY12A	FY13E	FY14E	FY15E
ROE (%)	-5.9	-5.1	4.8	8.3
ROIC (%)	-7.7	-3.4	5.4	9.9
Incremental ROE	7.3	5.6	285.8	50.1
Incremental ROIC	3.0	4.3	-197.0	-39.5

KEY ASSUMPTIONS

Year-end January (AUD)	FY10A	FY11A	FY12A	FY13E	FY14E	FY15E	FY16E	FY17E
Copper Price (US\$/lb)	3.94	4.00	3.60	3.67	3.65	3.54	3.47	
A\$/US\$	0.99	1.03	1.04	1.03	1.00	0.93	0.90	
Copper Production (kt)	0.0	1.3	13.7	18.0	20.2	20.2	20.2	
Gold Produced (koz)	0.0	0.4	6.5	8.5	8.9	8.9	8.9	
EBITDA Margin (%)	-497.6	-91.1	14.5	34.5	39.8	38.0	39.3	
EBIT Margin (%)		-173.4	-11.0	12.8	18.5	17.5	26.5	
ROA (%)	-5.2	-3.9	-4.3	3.3	6.0	6.6	9.1	
Earnings Sensitivity (% Chg)								
+/- 10% A\$/US\$			0.0	9.7	5.5	18.2	39.2	49.3
+/- 10% Copper Price			0.0	11.5	26.6	30.7	51.9	53.3

PROFIT & LOSS (\$m)

Year-end January (AUD)	FY10A	FY11A	FY12A	FY13E	FY14E	FY15E	FY16E	FY17E
Sales Revenue	1.4	4.2	12.9	109.5	139.6	159.5	166.4	166.0
EBITDA	-9.9	-20.9	-11.8	15.8	48.2	63.5	63.2	65.3
Depn & Amort	0.3	0.4	5.2	27.5	30.3	34.0	34.0	21.3
EBIT	-10.2	-21.3	-17.0	-11.7	17.9	29.5	29.1	44.0
Net Interest Expense	12.2	1.2	-1.6	4.8	2.9	1.2	-1.9	-3.6
Tax	-6.4	-9.2	-3.9	-5.7	4.5	8.5	9.3	14.3
Minorities / pref divs	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit pre Sig. Items	-16.0	-13.3	-11.6	-10.8	10.5	19.8	21.7	33.4
Abn's / Ext's / Signif.	71.5	0.0	0.0	-2.9	0.0	0.0	0.0	0.0
Reported Net Profit	55.5	-13.3	-11.6	-13.7	10.5	19.8	21.7	33.4

CASHFLOW (\$m)

Year-end January (AUD)	FY10A	FY11A	FY12A	FY13E	FY14E	FY15E	FY16E	FY17E
EBITDA	-9.9	-20.9	-11.8	15.8	48.2	63.5	63.2	65.3
Interest & Tax	-37.3	-8.7	2.4	-4.9	-8.2	-11.2	-10.0	-14.3
Working Cap / Other	38.7	-11.1	-12.8	-14.8	3.0	0.8	2.7	4.6
Operating Cash Flow	-8.6	-40.7	-22.2	-3.8	42.9	53.1	55.9	55.6
Maintenance Capex	-7.2	-44.2	-121.4	-12.6	-6.0	-2.0	-2.0	-2.0
Free Cash Flow	-15.8	-84.9	-143.6	-16.4	36.9	51.1	53.9	53.6
Dividends Paid	-8.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development Capex	-4.4	-8.2	-10.7	-14.9	-6.2	-10.4	-10.4	-10.4
Invest. / Disposals	165.6	3.2	0.2	0.0	0.0	0.0	0.0	0.0
Other Inv. Flows	0.0	-4.3	5.9	20.0	0.0	0.0	0.0	0.0
Cash Flow Pre Financing	137.2	-94.2	-148.2	-11.3	30.7	40.8	43.5	43.3
Funded by Equity	32.8	75.5	0.0	18.2	0.0	6.8	0.0	0.0
Funded by Debt	-47.3	-2.5	51.1	1.4	-20.0	-13.3	-20.0	0.0
Funded by Cash	-122.7	21.2	97.1	-8.3	-10.8	-34.2	-23.5	-43.3

BALANCE SHEET SUMMARY (\$m)

Year-end January (AUD)	FY10A	FY11A	FY12A	FY13E	FY14E	FY15E	FY16E	FY17E
Cash	130.4	118.4	20.7	28.0	38.7	72.9	96.4	139.7
Current Receivables	1.1	1.9	6.4	8.3	10.9	11.0	11.8	11.7
Current Inventories	0.1	0.1	9.3	13.0	14.8	14.6	14.9	15.3
Net PPE	31.9	69.1	229.4	221.2	196.9	164.8	132.8	113.5
Investments	3.5	3.8	4.2	10.5	10.5	10.5	10.5	10.5
Intangibles / Capitalised	44.1	43.3	19.8	34.5	40.7	51.1		
Other	0.0	17.8	10.0	2.8	2.8	2.8	64.3	74.7
Total Assets	211.1	254.4	299.8	318.3	315.3	327.8	330.7	365.4
Current Payables	13.7	8.9	17.2	28.6	32.6	32.1	32.9	33.7
Total Debt	2.5	0.0	51.2	53.3	33.3	20.0	0.0	0.0
Other Liabilities	31.5	59.8	21.3	22.0	24.4	24.1	24.6	25.1
Total Liabilities	47.7	68.7	89.7	103.8	90.3	76.3	57.5	58.8
Minorities / Convertibles	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.2
Shareholder Equity	163.4	185.7	210.1	214.5	225.0	251.5	273.3	306.6
Total Funds Employed	165.9	185.7	261.3	267.8	258.3	271.5	273.3	306.6



RETURN RE-INVESTMENT MATRIX

Return	High	Cash Generator	Champion
	Low	Challenged	Potential
		Low	High
		Re-investment	

Currently progressing 20ktpa copper mine in South Australia towards Bank Completion test. Project largely de-risked once achieved and should provide consistent returns. We also consider ability to grow organically as likely.

RISK MEASURES

	Low	Med	High	Spec
Share Price Risk				
Business Risk				

Share price risk - Earnings subject to copper price exposure and strength of AUD. Business Risk - Main risk is that project does not deliver forecast copper production profile. Further risk is that exploration potential in South Australia and South-East Asia is not realised.

BUSINESS DESCRIPTION

HGO is an Australian mining company focused on the operation of the Kanmantoo Copper mine in South Australia, and exploration on its Indonesian tenements. In Indonesia, HGO is targeting the discovery of epithermal gold and porphyry copper/gold deposits. The Kanmantoo Copper mine is located less than 55km from Adelaide. Ramp-up of the open pit mine and processing circuit is progressing to an initial throughput of 2.4Mtpa producing ~80kt of concentrate per annum (~20ktpa of copper metal).

INVESTMENT THESIS

HGO recently completed a \$19m raising to provide sufficient working capital to allow the company to address elevated grade dilution and low mining rates at its Kanmantoo mine. In our base case, we operational improvements are achieved and we value the company at \$0.22/sh. The current share price approximately reflects the replacement value of the Kanmantoo mine. Whilst we highlight the near term operating risks, we do see value should these issues be resolved. We rate a Speculative Buy.

REVENUE DRIVERS

- Copper and gold prices
- Improved mining rates and copper feed grades to the mill
- Successful exploration at Kanmantoo and Indonesia

BALANCE SHEET

- Equity: 793.7m FPO
- Options: 38.9m
- Cash: \$27m (31 Dec 2012)
- Debt: \$53m (31 July 2012)

KEY ASSETS

- Kanmantoo Copper Mine (South Australia): is an open-cut mine with initial throughput of 2.4Mt pa, producing approximately 80,000t of concentrate, containing about 20,000t of copper metal and 10,000oz of gold with exploration potential for further copper

RESERVES & RESOURCES

- ? Kanmantoo
 In-situ Resource: 31.2Mt @ 0.82% Copper
 Long term stockpile Resource: 1.6Mt @ 0.37% Copper

BOARD

- Dean Brown (Chairman)
- John Gooding (Non-Executive Director)
- John Quirke (Non-Executive Director)
- Douglas Snedden (Non-Executive Director)
- Edwin Zemancheff (Non-Executive Director)

KEY ISSUES / CATALYSTS

- Mill feed grades achieving 0.8% by end of 2012.
- Bank Completion Test achieved: must be completed by end of 2013
- Increased Resource at Kanmantoo to increase mine life towards 10 years.
- Exploration success in Indonesia provides optionality for HGO

MANAGEMENT

- Mr Greg Hall (Managing Director)
- Russell Middleton (Chief Financial Officer)
- Shanthi Smith (Company Secretary)
- Steven McClare (General Manager (Kanmantoo Copper Mine))

RISK TO VIEW

- Inability to achieve and maintain full production capacity at Kanmantoo.

MISCELLANEOUS AND OTHER

?

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Our web site: www.wilsonhtm.com.au

Return Reinvestment Matrix and Risk Measures

Definitions at <http://www.wilsonhtm.com.au/Disclosures>

Recommendation Structure and Other Definitions

Definitions at <http://www.wilsonhtm.com.au/Disclosures>

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